these 10 years increased its resources without levying any additional burden on the shoulders of the taxpayer. Looking at the expenditure side it would be found that in 1100 the total expenditure was Rs. 65.03 lakhs while in 1110 it was Rs. 96.83 lakhs. There has thus been an increase of 31.80 lakhs in the expenditure during this period. Compared with 1100 the expenditure has gone up by very nearly 50%. The items of expenditure which go to make up this increase would reveal that a good deal of this extra expenditure has been on social service like education, medical and public health and the development of Panchayats. Expenditure on education increased during this period from 11.17 lakhs to nearly Rs. 17 lakhs. The expenditure on medical and public health has increased from Rs. 3.70 lakhs to Rs. 6.28 lakhs and the expenditure on Panchayats which was nil in 1100 is Rs. 2.11 lakhs in 1110. The expenditure on social service has therefore increased during this period by about 11 lakhs of rupees.

5. The problem that confronts the Government of today is to meet the increasing demands that are made every year especially by the departments concerned with nation building activities. The expansion in the activities of Government has resulted in commitments which go on increasing at an almost alarming speed every day. The fact that has to be noted is that some of these commitments have a tendency to increase as the years pass by. The expenditure on pension and gratuity would illustrate what I mean. The total expenditure under pension and gratuity in 1100 was only Rs. 1.35 lakhs: in 1110 it rose to Rs. 3.83 lakhs and it is still increasing. In other words the policy of expansion has led to commitments which automatically expand every year. Unfortunately for us the sources of our revenue are not so elastic. A very rigid control has therefore to be kept over almost every department. Otherwise it will be found that in a few years the recurring expenditure would by far exceed the revenue of the year. Many of our sources of revenue as I observed are inelastic. Land revenue has become a stationary item. The income under excise shows a tendency to go down. The only sources from which we can expect further increase are the harbour and the railway. It must however take some time before the income from these sources shows any considerable increase.

Income Tax.

6. With a view to increase our revenue to some extent and with a view to have a more equitable basis we have decided

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to increase the rates of income-tax on incomes above Rs. 15,000. Legislation to give effect to this proposal will be introduced during the course of this sitting. In view of the protest that this proposal has evoked from certain commercial bodies it is I think necessary that I should give a brief account of the implications of this proposal. The proposal introduces a steeper graduation of the tax on incomes above Rs. 15,000. All incomes below this figure will be left untouched. It will thus be seen at the very outset that the proposal will affect only richer classes. When the proposals are understood in their full implications it will be found that even this class will have no legitimate cause for complaint. The existing rates applicable to incomes below Rs. 15,000 are about two-thirds of the corresponding British Indian rates, but in the case of larger incomes the disparity is very great. The rates on the higher incomes are in certain cases less than half of the British Indian rates in addition to there being a super tax in British India on these big incomes. When assessees whose incomes are below Rs. 15,000 are paying a tax of about two-thirds of the British Indian rates, it is only fair that the assessees with larger incomes also should pay more or less in the same proportion. The rates now proposed will be found to be in fact less than two-thirds of the existing British Indian rates of income tax. Apart from this underlying justice of the proposed revision it will be found that only about 42 assessees will be affected by the proposed revision. Out of these 42 assessees about 20 are persons who are also assessed in British India and are entitled to relief under their double taxation. According to the reciprocal arrangements that we have come to with the Government of India when a person is assessed both in British India and in Cochin State the entire amount of tax paid by him at the lower of these two rates is refunded to him and half of this rate is refunded to the Cochin Government by the Government of India. Therefore any increase in the rates of the Cochin income-tax will not cast an additional burden on the assessee. So far as these 20 assessees are concerned the only effect of the proposed increase will be that the Government of India will have to give a greater refund to the Cochin Government. It is also worthy of note that out of these 42 persons who are nominally affected by the revision of the rates, only about half the number are subjects of His Highness, the rest being either non-resident foreigners or outsiders who have come to Cochin for the purpose of business.

7. It has been brought to my notice that though there

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cannot be any legitimate complaint from the point of view of individual assessees the increase in the rates applicable to companies may operate as a hardship. This idea is again due to a misconception. There are now about 260 companies and registered firms who will be affected by this revision. It would however be found that the enhancement of the tax does not prejudicially affect the ultimate shareholders. In the interest of tax collection the income-tax on companies is always levied on the maximum rates applicable to individuals. If it were otherwise there may be shareholders whose total income is so large that they are personally liable to pay tax at the maximum rate but escape such tax in the case of dividends if the company also is not taxed at the maximum rate. Under the provision of the Income-Tax Regulation when the rate at which the company is taxed is higher than the rate at which the shareholder is liable to be taxed on his income the tax on the dividend calculated at the difference between the company's rate and the shareholder's rate will be refunded to the shareholder. By virtue of this provision it will be found that the middle class shareholder is not ultimately affected and will get by way of refund what the company pays in the shape of enhanced tax. When the provisions of the Income-Tax Amendment Bill are examined from these points of view it will be found that not merely are the poorer and middle classes left unaffected but that equity demands an increase of the rates to the proposed level. I hope therefore that the House will accept the proposal when it is duly placed before it.

Codification of Laws.

8. I shall now pass on to certain other matters relating to the internal administration of the State. The Law Commision that was set up during this year has made fairly good progress so far. The Commissioner has already submitted for the consideration of Government about 45 draft Regulations. Of these 23 are Amendment Regulations and 22 are new Regulations incorporating in our statute law some of the enactments of British India. Honourable Members will remember that in virtue of the undertaking given by His Highness' Government as a part of the Cochin Harbour settlement we are bound to keep our statute law especially the laws relating to commercial transactions on the same lines with the corresponding legislation in British India. The object of Government in setting up the Law Commission is not merely to enable Government to fulfil this undertaking but to consolidate the statute law of the State

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